International Trade Quiz

1. What is MOST LIKELY to happen to US imports and exports if the US dollar becomes stronger relative to other currencies?

A imports will increase, exports will decrease
B imports will decrease, exports will increase
C both imports and exports will increase
D both imports and exports will decrease
E imports are unaffected, exports will decrease

2. If the value of US exports exceeds the value of US imports, the United States definitely has a

A balance of trade surplus.
B balance of payments surplus.
C balance of trade deficit.
D balance of payments deficit.
E balance of exchange rates deficit.

3. An increase in the Japanese demand for US dollars is likely to have what effect on the supply and demand of yen in the foreign exchange market?

	Supply	Demand
A.	Decrease	Decrease
B.	Decrease	Increase
C.	Increase	Decrease
D.	Increase	No Change
E.	No Change	Increase

4. When arguing for a tariff rather than a quota, *consumers* might make which argument?

A The tariff helps domestic consumers and domestic producers.
B The tariff lowers the equilibrium price level in the economy.
C Government revenue is helped by a tariff, which could lead to lower deficits.
D Tariffs set strict limits on the amount of imported goods.
E Tariffs will have no effect on the currency exchange rates of the country.

5. When does the law of comparative advantage indicate that mutually beneficial international trade can take place?

A when tariffs are eliminated
B when transportation costs are almost zero
C when relative costs of production differ between nations
D when a country can produce more of some product than can another
E when a country can produce a product in less time than another country

6. Which transaction represents an immediate deduction in the current account of the US balance of payments?

A The Moscow Capital Investment Corporation makes a loan to a US Firm.
B A US subsidiary company exports raw materials from France to its parent company in Atlanta.
C US Firms and individuals receive dividends on US Investments in Latin America.
D US Tourists in Great Britain purchase pounds.
E Foreigners purchase US Securities.

7. An increase in US interest rates relative to the rest of the world can be expected to

A encourage investment spending in the US.
B decrease the capital flow into the United States.
C cause a net outflow of foreign capital from the United States.
D increase the international value of the dollar.
E improve exporters current position.

8. A country wishing to impose a trade barrier that will benefit both their domestic producers and the domestic consumers should implement which type of barrier?

A standard
B quota
C embargo
D tariff
E subsidy

Use the following information for question 9.

	Arbec	Nerbo
Paper	20 reams	20 reams
Oranges	10 lbs	60 lbs

9. Assuming total specialization, if the WTO enforces the terms of trade at 2 reams of paper = ¼ lb of oranges then

A both countries will benefit.
B only Arbec would benefit.
C only Nerbo would benefit.
D neither country would benefit.
E to answer you need pre-trade production points.

10. If the US Dollar experiences drastic appreciation in the foreign exchange market, the US should expect which of the following in the short run?

A a current account deficit
B a current account surplus
C a financial account deficit
D a financial account surplus
E fewer trade restrictions from the government

11. Which is true if a nation does NOT have absolute advantage in the production of any good or service?

A It cannot have comparative advantage either.
B It will have a comparative advantage in the production of the good where they have a lower opportunity cost.
C It will export raw materials and import finished products.
D No country will want to trade with this country because it will not be cost effective to do so.
E The international value of its currency will be fixed.

12. The international value of the dollar is directly determined by

A the IMF.
B the money market.
C government decree.
D the foreign exchange market.
E supply and demand of international goods and services.

13. The opportunity cost of a city building a new water park is the

A utility gained from the citizens by using the lake.
B expense of building the water park.
C value of the dog park that must be sacrificed in order to build the water park.
D tax dollars that were used to research the need and desire for the water park.
E value of everything now lost when the water park is built.

14. The Hatfields and McCoys have been feuding for years. In the Hatfield family, one unit of cloth is worth .8 units of corn. In the McCoy family 1 unit of cloth is worth 1.25 units of corn. To enjoy the highest economic standard of living possible, should these two families engage in trade?

A No, the McCoy's do not bring any value to the transaction.
B No, the Hatfields have absolute advantage in both goods.
C Yes, the Hatfields have absolute and comparative advantage in corn.
D Yes, the Hatfields have comparative advantage in cloth.
E No, the feud would prevent any positive effect from trade.

15. Tariffs and quotas are economically inefficient because

A the government does not collect any revenues with these trade barriers.
B imports rise and this reduces the welfare of consumers.
C domestic producers are spared full competition from foreign producers.
D domestic prices must be reduced.
E they change a countries production possibilities curve.

16. On the long run Phillip's Curve, an increase in inflation will

A increase the real interest rate.
B increase the marginal tax rate.
C increase the unemployment rate.
D decrease the unemployment rate.
E have no effect on the unemployment rate.

17. A credit in the United States' financial account can be caused by which of the following?

I. buying foreign currency
II. selling US Treasury bonds
III. selling US Machinery to foreign countries
IV. buying foreign treasury bonds

A I, II, III, and IV
B I II, and III only
C I and IV only
D II only
E II and III only

18. Removing a trade barrier has which of the following effects on a market?

	Price	Quantity	Domestic Production
A	Decrease	decrease	decrease
B	Not affected	increase	increase
C	Increase	increase	increase
D	Decrease	not affected	decrease
E	Decrease	increase	decrease

19. How does unanticipated inflation in the United States affect a *foreign government* repaying a loan with a fixed rate of interest to the United States?

A They benefit because they get to repay the loan with dollars that are worth less.
B They lose because the amount of the loan will increase by the rate of inflation.
C This question is not realistic because the US only makes adjustable rate loans.
D They benefit because they get to pay back less money to the United States.
E To answer this question you need to know the interest rate on the loan and the rate of inflation.

20. A country that can produce 100 gallons of milk OR 100 pounds of cheese – and specializes in cheese – will engage in free trade as long as the terms of trade are set so that

A The foreign exchange rate never changes
B 1 pound of cheese is worth less than 1 gallon milk
C 1 pound of cheese is worth more than 1 gallon of milk
D The country can produce at least 100 pounds of cheese
E The country gets at least 100 gallons of milk per trade

21. A United States firm sells $10 million worth of goods to a firm in Argentina, where the currency is the peso.

(a) How will the transaction above affect the United States' aggregate demand? Explain.

(b) Assume that Argentina's current account balance with the United States is initially zero. How will the transaction above affect Argentina's current account balance? Explain.

(c) What will be the net effect of your answer from part (b) on the United States' financial account balance? Explain.

(d) Using a correctly labeled graph of the foreign exchange market for the United States dollar, show how a decrease in the United States financial investment in Argentina affects each of the following.

(i) The supply of United States dollars
(ii) The value of the United States dollar relative to the peso

(e) Suppose that the inflation rate is 3 percent in the United States and 5 percent in Argentina. What will happen to the value of the peso relative to the United States dollar as a result of the difference in inflation rates? Explain.